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Value creation in Indian cross-border acquisition deals

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Introduction

- Competitive advantages of EMNEs
- Internationalization strategy of EMNEs
- Reverse innovation and EMNEs
- Which Indian companies gain most from acquiring European companies?

Literature: Exploitation

- Extant literature = the importance of resources and capabilities in the international growth of the firm.
- The conventional approach of the RBV of the firm
  - the object of analysis is the barriers to diffusion
  - seen from the perspective of the incumbent looking to delay the entry by competitors

  => looking to sustain firm-specific advantages

Literature: Exploration

- Over time the exploration of new capabilities and competencies became increasingly more important than the exploitation rationale.
- Foreign subsidiaries had to increasingly tap into new economies and markets to add to the competitive advantage of multinationals.
- Initially this was often applied to firms expanding from an advanced home base in search of new products, services, and ideas.

What about EMNEs: Nil nove sub sole?

- The resource access motive can, however, also be interpreted as an attempt to access external resources in order to offset the weaknesses of the investor.
- The critical starting point for the latecomer and newcomer is that it is focused not on its own advantages, but on the advantages which can be acquired externally.

- They don't have any FSAs!
- They have FSAs! They are the cream of the crop!
- Or perhaps they have different FSAs?

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Cross-Border Acquisitions: Increased Trend

- Number of cross-border deals continues to increase in all corners of the world
- Acquisitions by *emerging*-country firms occurring in *developed* countries, especially in the U.S., UK and Europe
  - Developed economies have more open policies
  - Developed economies are in distress

- Intent: increase firm's strategic competitiveness and value
- The reality, however, is returns are close to zero

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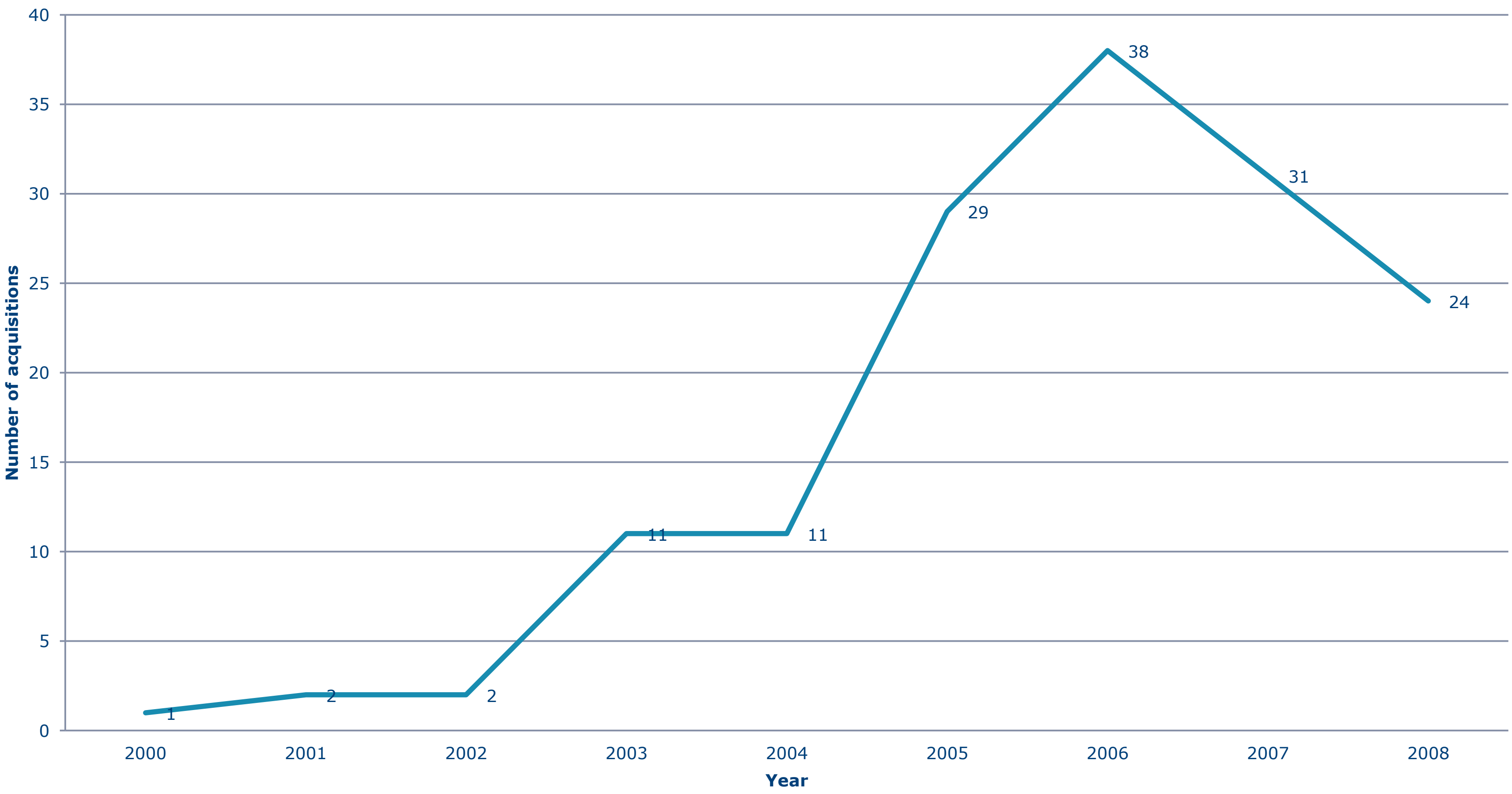
Sample

- Indian acquisitions in Europe
- Zephyr
- 2000-2008
- >150, but end up with 54 deals due to data availability
- Prowess

Indian cross border acquisitions in Europe



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Some descriptive statistics

Country distribution European target firms	Amount
United Kingdom	49
Germany	24
Italy	14
France	10
Spain	9
Netherlands	7
Czech Republic	5
Belgium	4
Sweden	4
Switzerland	4
Hungary	3
Romania	3
Poland	3
Austria	2
Ireland	2
Bulgaria	1
Cyprus	1
Denmark	1
Norway	1
Portugal	1
Slovenia	1

Industry distribution of European target firms	Amount
Pharmaceuticals	35
IT-services & consultancy	18
Automotive	14
Manufacturing of machinery	12
Chemicals	10
Textiles	9
Steel	8
Electrical equipment	8
Plastics	6
Metals	3
Pesticides	3
Beverages	3
Wholesale of clothing	3
Construction and engineering	2
Packaging	2
Cosmetics, toiletries and detergents	2
Others (a)	11

Type of acquisition	Amount
Majority stake*	93,20%
Minority stake**	6,80%

Industry distribution of Indian bidding firms	Amount
Pharmaceuticals	35
Automotive	22
IT services & consultancy	15
Textiles	14
Electrical equipment	10
Steel	9
Manufacturing of machinery	9
Chemicals	5
Plastics	5
Pesticides	3
Oil and gas	3
Beverages	3
Cosmetics, toiletries and detergents	3
Construction and engineering	2
Packaging	2
Others (b)	9

Industry relatedness	Amount
Non-related	33
Related	114

(a) Others include: financial services, jewellery, luggage, oil and gas, paints and varnishes, publishing of books, retail, storage tanks, telecommunications, transport and wind power

(b) Others include: consumer electronics, financial services, food, jewellery, luggage, paints and varnishes, publishing of books, telecommunications and wind power.

*majority stake: ≥50% stake

**minority stake: <50% stake

Source: own research; based on Zephyr database

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How do we measure value? Event Study Methodology of stock market response

- Unanticipated events cause a change in the firm's security price as soon as the market learns of the events.

- ( )
  - Bombay Stock Exchange
  - 101 days (121 days prior to 10 days prior)

- =
  - 21 days (10 days prior to 10 days after)

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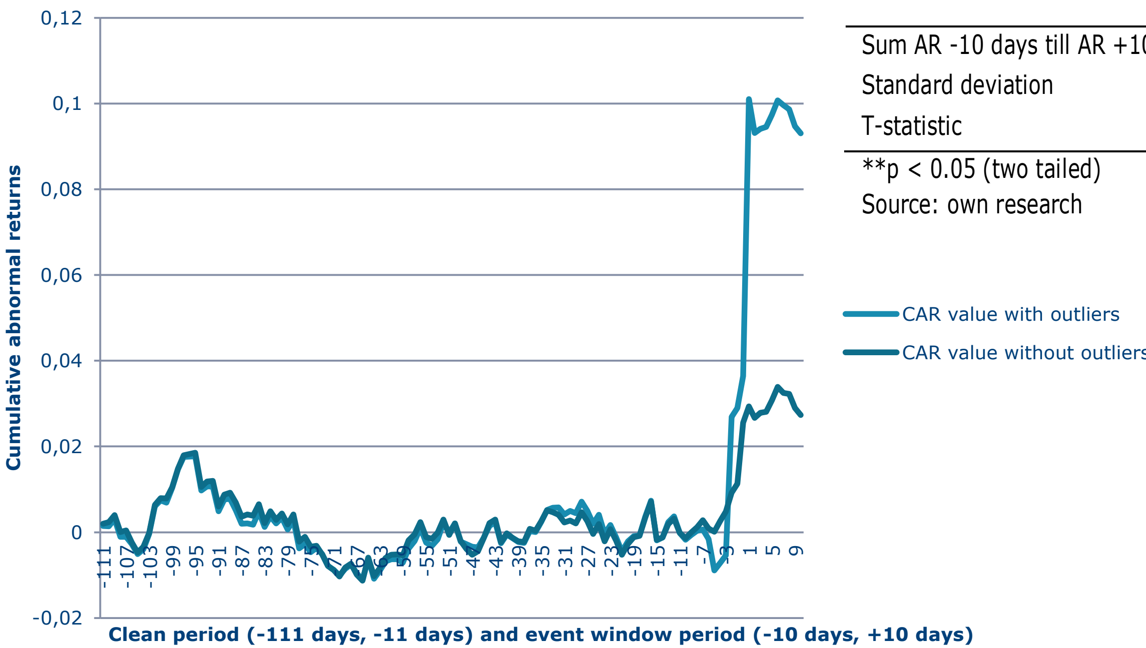
Dependent variable: CAR

- Event study results and statistical significance of the 11-day window CAR values (p*<0.05, p**<0.01): evidence of value creation

	Acquiring Indian companies
Sum AR -10 days till AR +10 days	0,0273475
Standard deviation	0,0028645
T-statistic	2,0833187**

**p < 0.05 (two tailed)
Source: own research



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Acquiror: R&D

- H1a. Indian firms with higher R&D intensity gain more from European acquisitions

  (RBV point of view)

- H2b. Indian firms with lower R&D intensity gain more from European acquisitions

  (LLL point of view)

Target: High Tech

- H2a. Indian firms that acquire a high-tech European target gain more from their European acquisitions

- H2b. Indian firms with higher R&D that acquire a high-tech European target gain more from their European acquisitions.

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Acquiror: Business group

- H3a. Indian firms that are part of a business group gain more from European acquisitions
  - Management theory (e.g. BG management experience)
  - Institutionial theory (e.g. market voids)
  - Political economy (e.g. political connections)

- H3B. Indian firms that are part of a business group and have higher R&D gain more from European acquisitions

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Control

- Well-performing target? +/-
  - ROA
- Good deal? +
  - (targetsize* acquired_stake)/ dealvalue
- Size of deal? +
  - Targetsize/acquirorsize
- Full ownership? +/-
  - >95%

Results

```
. regress car_value_window target_roa_last rendint fullown relsize gooddeal group target_hig
> h_tech  rendintgroup   target_high_tech_int_rend
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Source	SS	df	MS
Model	1.10241555	9	.122490617
Residual	1.08940137	44	.024759122
Total	2.19181693	53	.041355036

Number of obs =	54
F(9, 44) =	4.95
Prob > F =	0.0001
R-squared =	0.5030
Adj R-squared =	0.4013
Root MSE =	.15735

car_value_~w	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
target_roa~t	.327544	.1545945	2.12	0.040	.0159792	.6391088
rendint	-7.545844	2.53085	-2.98	0.005	-12.64644	-2.445252
fullown	-.0814514	.0477562	-1.71	0.095	-.1776976	.0147949
relsize	.1605897	.1130577	1.42	0.163	-.0672631	.3884425
gooddeal	.0000776	.0000996	0.78	0.440	-.0001231	.0002783
group	.2212418	.0614551	3.60	0.001	.0973872	.3450965
target_hig~h	.1081345	.0604094	1.79	0.080	-.0136127	.2298817
rendintgroup	4.364145	2.473219	1.76	0.085	-.6202997	9.348591
target_hig~d	2.376565	2.276866	1.04	0.302	-2.212157	6.965288
_cons	-.1376693	.068352	-2.01	0.050	-.2754237	.0000851

Conclusions

- LLL beats RBV: R&Dint coefficient is negative, market response is better the lower your R&Dint.

- High tech targets positively influence market response, yet not the interaction variable with R&D intensity of the acquiror. So again LLL beats RBV.

- New FSA? Group variable is positive and significant, also interaction with R&D.

Conclusions

- Well performing target positively influences value
- Good deal does not matter
- Full ownership negatively impact value

Way forward

- Region: Global deals
- Period: 2000-2010
- R&D intensity of the group
- R&D intensity/R&D intensity of sector
- CAR sensitivity analysis
- Other measures of value creation, e.g. R&D intensity, growth, profitability of acquiror after some time

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